GENESCO The Apparel Company

GENESCO Inc. Annual Report 1975

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DESCRIPTION OF BUSINESS

The business of GENESCO is people and the apparel they wear. Its divisions manufacture and distribute clothing and footwear for men, women, and children both through company owned stores and through other stores. Operations are mainly located in the U.S. and Canada.

Cover: Woman's sweater and skirt by Justin Charles and Landrover suit by H-K outside GENESCO's Henri Bendel store on 57th Street in New York.

Corporate Offices

111 Seventh Avenue, North
Nashville, Tennessee 37202
615 747-7691

730 Fifth Avenue
New York, New York 10019
212 582-9090

Cable Address

GENCORP

Telex Numbers

Nashville, Tennessee 55 4423
New York, New York 12 6814
Zurich, Switzerland 845 52503

Transfer Agents

Common Stock and Preferred Stock
Morgan Guaranty Trust Company
New York, New York 10004
First American National Bank
Nashville, Tennessee 37202

Registrars

Common Stock and Preferred Stock
Chemical Bank
New York, New York 10004
Third National Bank
Nashville, Tennessee 37202

New York Stock Exchange Symbol

GCO

Annual Meeting of Stockholders

Monday, 1 December 1975

Form 10-K

Each year GENESCO files with the Securities and Exchange Commission a Form 10-K report which contains more detailed information. If you would like to receive a copy, please send your request to GENESCO Inc., Route K-41, Director-Regulatory Agency Relations, P. O. Box 941, Nashville, Tennessee 37202.

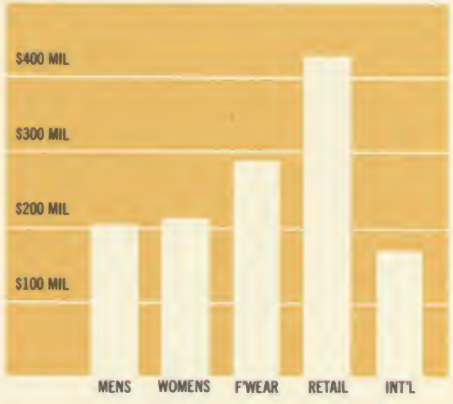
Financial Highlights

YEAR ENDED 31 JULY

	1975	1974
Net sales	$1,095,972,000	$1,184,727,000
Pretax earnings (loss) of U.S. and Canadian operations	(4,072,000)	36,736,000
Income taxes	(3,791,000)	(17,274,000)
Minority interests	—0—	(204,000)
Nonconsolidated companies:		
Equity in losses	(3,750,000)	(2,547,000)
Gain (loss) on divestments	(2,684,000)	417,000
Net earnings (loss)	(14,297,000)	17,128,000
Primary earnings (loss) per common share	$(1.41)	$1.07

Net Sales*

By Major Business Category

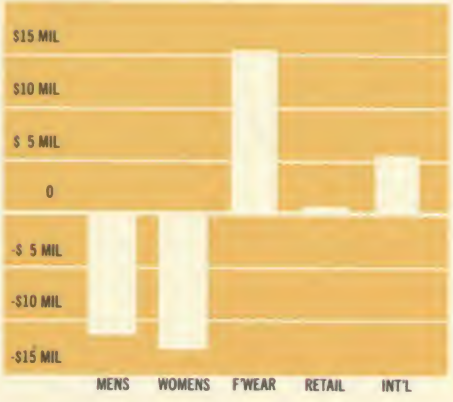


	%	DOLLARS
Men's Apparel	15.6	$ 203,297,000
Women's and Children's Apparel	16.3	212,209,000
Footwear	22.2	290,253,000
Retailing	32.7	427,027,000
International	13.2	172,411,000
TOTAL	100.0	$1,305,197,000

*Before elimination of intercompany and non-consolidated international sales.

Pretax Earnings (Loss)*

By Major Business Category



	DOLLARS
Men's Apparel	$(11,502,000)
Women's and Children's Apparel	(12,938,000)
Footwear	15,324,000
Retailing	485,000
International	5,510,000
TOTAL	$(3,121,000)

*Before consolidating eliminations and non-allocated corporate expenses.

Two and a half years ago GENESCO management began a major restructuring program aimed at halting a five year decline in earnings and consolidating operations into the more profitable areas of the apparel and footwear industry. In fiscal 1974, the end of the first full year of this effort, definite progress had been made, and the earnings decline had been reversed.

The Recession of 1975

In our 1974 Annual Report we commented that the economic outlook was not encouraging. But neither we nor anyone else at that time foresaw that the economy would be entering the worst recession since World War II and perhaps even the great depression of the Thirties. Fiscal 1975 began poorly as incoming orders declined sharply and shipments were cancelled in unusual numbers. The reason for this decline was simple. Unemployment was climbing to record highs and, simultaneously, a rapidly rising inflation rate cut sharply into consumers' spending money. The combination of the two reduced real discretionary income, which, in turn, hurt business at the retail level.

Effects on Business

As retailers across the country saw their sales begin to skid, they realized that their stocks were far too high for the reduced volume of business. A number of major retailers publicly admitted this and announced plans to correct the situation. In order to reduce their inventories, these retailers, who are customers of our manufacturing divisions, sharply reduced their orders for new goods and cancelled many orders already placed. Moreover, when they did order goods, they looked for promotional items which could be sold at lower prices.

The effect on manufacturers was dramatic. As incoming orders dropped by 20% and 30%, manufacturers were faced with an unpleasant choice. If they shut down their factories until sufficient orders were received, the loss on overhead costs would show up immediately on the bottom line. But if the factories continued to manufacture in hopes that orders would arrive, they ran the risk of producing unsaleable merchandise if the orders did not appear. To make matters worse, the promotional items which retailers demanded meant lower margins. Manufacturers had to cut their prices in order to remain competitive. Since inflationary pressures made it difficult to reduce costs, the immediate result of the price reductions was a decrease in profits.

We realize that at any given time there will be some area of the apparel industry which will not be doing well. We are diversified into a number of areas so that when one is down, another will take up the slack. But in this recession, our sales fell off across the board, almost without exception. Our manufacturing and wholesale divisions in total were off 12% for the year. Our retail sales were not so dramatically affected. Although retail sales were down 3%, we were operating with 5% fewer store units.

Fiscal 1975 Results

As a result of these factors, net sales were $1,095,972,000 in fiscal 1975 compared with $1,184,727,000 in 1974. The 1975 pretax loss from U. S. and Canadian operations was $4,072,000. After provision for Canadian and state income taxes, equity in losses of nonconsolidated subsidiaries related to European operations, and loss on divestment of certain European companies, the company had a net loss of $14,297,000 or $1.41 per common share in fiscal 1975. This compared with net earnings of $17,128,000 or $1.07 per common share in fiscal 1974.

Provision was not made for U. S. Federal income tax carryforward benefits in the amount of $10,512,000 applicable to 1975 operations. These tax benefits will be available to reduce taxes payable on profits earned in the future and will increase net earnings in the year in which they are used. Further information on these results is contained in the Financial Review section on pages 4 through 7.

Positive Steps

As the extent of the recession became apparent, we acted quickly to minimize losses and maintain our liquidity. First, we made the strategic decision not to build inventories in anticipation of sales. As a result of this decision and our continuing efforts to keep inventories low, total inventories were down $46 million, 17% below fiscal 1974. In spite of the decrease in sales, inventory turnover in 1975 remained even with 1974.

Second, we placed great emphasis on collecting our accounts receivable. When the economy turns down, customers start taking longer to pay their bills. If this tendency gets out of hand, it can severely damage a business' financial position. As a result of our efforts, although our sales were 7% lower, at year end our total accounts receivable were 15% lower and the turnover was better than last year.

Third, we sharply reduced capital expenditures. At the beginning of fiscal 1975, we planned to spend $18 million for capital improvements. Early in the year, however, we revised our plans and reduced capital expenditures to $13 million. These funds were limited to maintaining existing facilities and equipment at competitive levels and to expanding in areas which offer above average opportunity for a return on investment.

Fourth, we reduced overhead costs and manufacturing capacity. During the year we closed or sold 22 plants and processing facilities. At the retail level, by the end of the year we were operating 97 fewer retail units although we did open 89 new units during the year. By reducing our manufacturing capacity, we have lowered the sales volume necessary for us to make a profit. By reducing retail units, we have concentrated our efforts and dollars on those units able to give the greatest return. In short, we have geared the corporation to transmit any significant sales increase into increased earnings.

Fifth, we further reduced our investment in Europe by the sale of several small companies on the continent. These companies were performing poorly, had limited potential in view of local political and economic conditions, and were in such financial condition that additional investment on our part was imminent. In order to prevent this outflow of cash and to reduce our future losses, we sold these companies during the year.

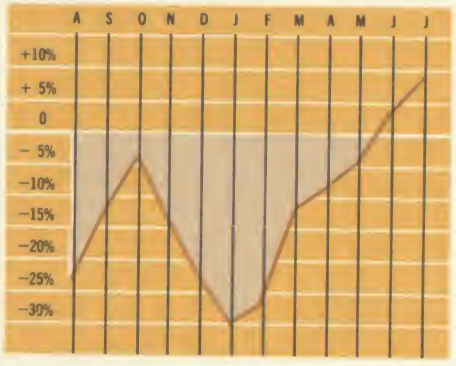
In addition to the areas already mentioned, we have taken a number of steps to strengthen and improve specific operations in the various areas of our business. These efforts are outlined in more detail in the review of our business which immediately follows the Financial Review.

During the past two and a half years, one of our highest priorities has been the recruiting of key executives with successful records in the area of marketing and merchandising. These efforts continued during fiscal 1975, and a number of experienced executives were placed in key positions in the organization during the year. These are also mentioned in the review of operations. After the close of the fiscal year, we were pleased to announce that two of the recognized leaders in the industry had joined GENESCO in the areas of men's tailored clothing and specialty apparel retailing. We feel this is a very promising step for the corporation.

Current Trends

Although we are obviously disappointed with the results for the year, we are encouraged by the trend in our incoming orders. As the chart clearly shows, the decline in incoming orders bottomed out in January and slowly began to catch up with the year ago figures, passing them finally in May. We expect to see the effects of these increased orders in the results of the first six months of fiscal 1976. At the same time, our retail business began to firm up in May and was slightly ahead of a year ago figures during the fourth quarter.

Monthly Orders Received
% Chg. From Last Year



In view of these factors and the many constructive steps taken during 1975, we are confident of a return to profitability in fiscal 1976.

Franklin M. Jarman
Chairman, President
and Chief Executive Officer

OPERATIONS

GENESCO's business falls into five major areas of apparel operations: men's apparel manufacturing, women's and children's apparel manufacturing, footwear manufacturing, retailing, and international operations. In addition, the retail operations can be broken down into the subcategories of footwear and apparel. Commentary regarding the current condition and future outlook for operations in each of these five areas immediately follows the Financial Review. The following comments apply to consolidated operating results of continuing operations.

Net Sales

Net sales for 1975 were $1,095,972,000 compared with $1,184,727,000 in 1974. Net sales of the major business areas are summarized as follows (in thousands):

	1975	1974
Manufacturing operations	$ 705,759	$ 800,239
Men's apparel	203,297	240,733
Women's & children's apparel	212,209	254,424
Footwear	290,253	305,082
Retailing operations	427,027	441,319
Footwear	165,291	163,867
Apparel	261,736	277,452
International operations	172,411	186,266
Total	1,305,197	1,427,824
Less intercompany & nonconsolidated international sales	209,225	243,097
Consolidated net sales	$1,095,972	$1,184,727

The decline in sales of manufacturing operations occurred primarily in the second and third fiscal quarters when retail customers made major reductions in the placement of new orders as they were reducing inventories. During this period retail customers placed substantially less than customary advance orders and significantly increased the cancellation of existing orders.

The reduction in retail sales reflects the general decline in consumer spending and a sizeable reduction in the number of retail units operated. Retail sales were up slightly during the fourth fiscal quarter even though 5% fewer units were operated.

Gross Margin

Gross margin decreased from 30.8% of sales in 1974 to 29.5% in 1975. As part of their inventory liquidation program, retailers concentrated their purchases on promotional merchandise which was abundantly available during this period. In order to remain competitive, it was necessary for the company to sell at lower margins in order to keep plants operating at minimum acceptable levels. Also, as part of the company's program to keep inventories in line with reduced sales volume, production output was seriously curtailed. This resulted in under-absorbed fixed costs. Although this had an adverse impact on gross margin, it was considered by management to be much more desirable than the alternative of inventory accumulation.

Selling, Administrative and General Expenses

Total selling, administrative and general expenses decreased $2,434,000 from last year. This is in addition to a $17,693,000 reduction in fiscal 1974. However, because of the decline in net sales, total expenses as a percent of net sales increased from 25.6% in 1974 to 27.5% in 1975.

Interest Expense

Interest expense was $26,631,000 in 1975 compared with $24,768,000 in 1974, an increase of 7.5%. The weighted average short term interest rate was slightly higher than last year (10.3% vs 10.0%). Average short term debt of both GENESCO and GENESCO Financial Corporation (GFC) increased from $151,000,000 to $165,100,000.

Interest expense includes interest payments to GFC, a wholly-owned nonconsolidated subsidiary. These interest payments are designed to cover GFC's fixed charges at least 1.5 times. GFC's pretax income of $4.171,000 in 1975 and $4,004,000 in 1974 is credited against interest expense. The net effect of this treatment is to show the interest expense of GFC as part of GENESCO's total interest expense just as it would be if GFC were a consolidated subsidiary.

Depreciation and Amortization

Depreciation and amortization (including amortization of lease rights) was $17,176,000 for 1975 compared with $16,545,000 in 1974.

Pretax Earnings

The pretax loss of U.S. and Canadian operations was $4,072,000 in 1975 compared with pretax earnings of $36,736,000 in 1974. Classification of pretax results by major business area is summarized as follows (in thousands):

	1975	1974
Manufacturing operations	**$ (9,116)**	$22,220
Men's apparel	**(11,502)**	2,841
Women's & children's apparel	**(12,938)**	5,017
Footwear	**15,324**	14,362
Retailing operations	**485**	11,113
Footwear	**5,611**	8,390
Apparel	**(5,126)**	2,723
International operations	**5,510**	7,087
Total	**(3,121)**	40,420
Consolidating eliminations and non-allocated corporate expenses	**(951)**	(3,684)
Pretax earnings (loss) of U.S. and Canadian operations	**$ (4,072)**	$36,736

The pretax results shown for each of these business categories have been reduced by a charge representing its pro rata share of corporate financial and administrative expenses. This charge is made to individual operating divisions by applying a percentage generally approximating the prime interest rate to the operating division's average investment in accounts receivable, inventories, and depreciated fixed assets.

Net Earnings

After provision for Canadian and state income taxes, equity in losses of nonconsolidated subsidiaries related to European operations, and loss on divestment of certain European companies, the company had a net loss of $14,297,000 in fiscal 1975 compared with net earnings of $17,128,000 in fiscal 1974.

Provision was not made for U.S. Federal income tax carryforward benefits in the amount of $10,512,000 arising from 1975 operations. These tax benefits will be available to reduce taxes payable on profits earned in the future and will increase net earnings in the year in which they are used.

Primary Earnings (Loss) Per Common Share Computation

(in thousands except amounts per share):

	1975	1974
Net earnings (loss)	**$(14,297)**	$17,128
Less (add) preferred dividends paid and in arrears	**(3,458)**	3,721
Net earnings (loss) available to common stock	**$(17,755)**	$13,407
Average common and common equivalent shares	**12,553**	12,545
Primary earnings (loss) per share	**$(1.41)**	$1.07

Quarterly Results

Quarterly results (unaudited) for fiscal 1975 and 1974 as reported were (in thousands except amounts per share):

	3 Months October	3 Months January	3 Months April	3 Months July	Fiscal Year
Net sales					
1975	**$303,527**	**$280,020**	**$253,663**	**$258,762**	**$1,095,972**
1974	314,329	309,827	292,418	268,153	1,184,727
Pretax earnings (loss) of U.S. and Canadian operations					
1975	**10,175**	**(2,412)**	**(6,133)**	**(5,702)**	**(4,072)**
1974	16,787	13,402	6,862	(315)	36,736
Income taxes					
1975	**5,036**	**(1,367)**	**(3,461)**	**3,583**	**3,791**
1974	7,941	6,734	3,186	(587)	17,274
Equity in losses of and gain or loss on divestment of nonconsolidated companies					
1975	**(102)**	**(322)**	**(789)**	**(5,221)**	**(6,434)**
1974	(904)	65	(490)	(801)	(2,130)
Net earnings (loss)					
1975	**4,980**	**(1,382)**	**(3,463)**	**(14,432)**	**(14,297)**
1974	7,833	6,672	3,142	(519)	17,128
Primary earnings (loss) per share					
1975	**$ .32**	**$ (.17)**	**$ (.35)**	**$ (1.21)**	**$ (1.41)**
1974	.55	.46	.17	(.11)	1.07

FINANCIAL CONDITION

Accounts Receivable

GENESCO sells certain of its accounts receivable to GENESCO Financial Corporation (GFC), a wholly-owned nonconsolidated subsidiary, at the outstanding balance less a 10% reserve for uncollectable accounts. The receivable amounts in the consolidated balance sheet are net of amounts financed with GFC and other financial institutions. Accounts receivable before financing are shown as follows (in thousands):

	1975	1974
Net accounts receivable per balance sheet	**$ 26,544**	$ 39,711
Add amounts financed	**125,508**	139,876
Total accounts receivable	**152,052**	179,587
Less accounts receivable of discontinued operations	**3,174**	3,124
Accounts receivable of continuing operations	**$148,878**	$176,463

Accounts receivable of continuing operations have been reduced by the following (in thousands):

	1975	1974
Allowance for bad debts	**$7,013**	$6,218
Allowance for cash discounts	**2,311**	3,101
	$9,324	$9,319

Total accounts receivable before financing are down 15.3% from 1974 compared with a decrease in net sales of 7.5%.

The accounts receivable turnover of continuing operations based on the average accounts receivable balances during the year was 6.3 in 1975 compared with 6.2 in 1974.

Inventories

Inventories are classified as follows (in thousands):

	1975	1974
Continuing operations		
Retail merchandise	**$ 86,467**	$ 95,306
Finished products	**51,418**	64,831
Work in process	**28,489**	32,053
Raw materials	**38,036**	57,608
Total continuing operations	**204,410**	249,798
Discontinued operations	**27,603**	28,751
Total inventories	**$232,013**	$278,549

Total inventories are down 16.7% from 1974 compared with a sales decrease of 7.5%.

On the basis of continuing operations, inventory turnover (annual sales ÷ average monthly inventory at balance sheet value) was 4.5 in both 1975 and 1974.

Working Capital

Total working capital of $174,948,000 represents a decrease of $72,243,000 from 1974. Factors accounting for this decrease are shown on page 16.

At 31 July 1975, the current ratio was 2.5 compared to 3.2 at 31 July 1974.

Short-Term Borrowing Arrangements

At 31 July 1975, bank credit lines of $239,650,000 with 46 commercial banks were available to either GENESCO and/or GENESCO Financial Corporation (GFC). Of this amount $210,150,000 is with 39 U.S. banks, $18,000,000 with 4 Canadian banks and $11,500,000 with 3 European banks. The lines may be withdrawn at any time at the banks' option. Borrowings are usually for ninety day periods and are at the U.S. and Canadian banks' prime rate effective on the date loans are made. European bank rates are based on the Eurodollar interbank rate. Arrangements with banks vary, but most provide that the company will endeavor to maintain collected funds on deposit in each bank which, over a calendar year, will average 10% of the credit line plus 10% of average borrowings under the line. No minimum deposit is required at any time on any of the bank lines. At 31 July 1975, GENESCO had no short-term notes outstanding. GFC had bank notes of $59,250,000 outstanding, at a weighted average interest rate of 7.2%. During the year, borrowings by GENESCO and GFC averaged $165,100,000 at a weighted average interest rate of 10.3%. The maximum borrowing at any month end during fiscal 1975 was $210,450,000 and at that time cash balances were $52,100,000. Following customary practice, GENESCO sold $4,400,000 of accounts receivable to a bank at 31 July 1975. Agreement was made with the bank that their credit line would not be used to the extent such receivables were outstanding. The unused lines of credit available to GENESCO and/or GFC amounted to $176,000,000 at 31 July 1975.

Future Tax Benefits

Operating losses of years prior to 1975 and the establishment of the $60 million reserve in 1973 resulted in substantial tax carryforward benefits which have been recognized as assets on the consolidated balance sheet. These tax benefits will be used to offset taxes otherwise payable on future earnings. Future tax benefits recognized as assets on the consolidated balance sheet are as follows (in thousands):

	1975	1974
Current assets	**$11,500**	$22,000
Noncurrent assets	**38,493**	28,603
Total	**$49,993**	$50,603

The net operating loss carryforwards and timing differences creating these future tax benefits expire during the fiscal years indicated below and management believes their utilization is assured beyond a reasonable doubt.

Fiscal Year	(in thousands)
1976	$ 3,705
1977	7,438
1978	745
1979	17,852
1980 and after	16,476
	46,216
Refunds receivable, net	3,777
Total	$49,993

Tax benefits in the amount of $10.5 million relating to 1975 losses have not been recognized as assets on the consolidated balance sheet. These carryforward benefits expire during the period of fiscal 1980 and after.

Investments and Long Term Receivables

During fiscal 1976 the company plans to invest $15,234,000 in nonconsolidated finance subsidiaries to service the long term debt requirements of these subsidiaries. This expected payment is reflected on the 31 July 1975 consolidated balance sheet in investments with the offset shown as a current liability. Primarily as a result of this recognition of expected future investments, the balance sheet value of investments and long term receivables increased from $8,771,000 in 1974 to $25,105,000 in 1975.

Capital Expenditures

Capital expenditures were originally budgeted at $18,300,000 for 1975. However, in view of the uncertain economic conditions, action was taken early in the year to substantially reduce planned expenditures. As a result actual capital expenditures in 1975 were $12,942,000 compared with $17,699,000 in 1974. The preliminary 1976 capital expenditure budget is $10,000,000. Actual 1975 expenditures, as well as budgeted expenditures for 1976, have been limited to expansion programs with above average return and those absolutely necessary to maintain existing facilities and equipment at competitive levels.

Restructuring Program

In July 1973 an after tax reserve of $60,146,000 was established to provide for anticipated losses involved in the sale, restructuring or discontinuance of unprofitable operations. Except for the sale of the restructured S. H. Kress operation, the plan approved by the board of directors has been essentially implemented. All of this action has been accomplished within the limits of the reserve. Efforts to sell the Kress chain in its original form did not produce tangible results, but interest continues to be shown in the restructured Kress operation. The remaining reserve amounting to $16,711,000 at 31 July 1975 will be used to cover lease payments, net of sublease income, on stores already closed and to complete the restructuring program as outlined above. In the opinion of management, the reserve is adequate to cover all future costs anticipated at this time.

Dividends

Total dividends paid on preferred stock were $1,764,000 in 1975 and $3,721,000 in 1974. Payment of preferred dividends was suspended by the board of directors in March 1975. Preferred dividends in arrears at 31 July 1975 were $1,694,000. Resumption of dividends at the earliest possible date is a top priority objective when permitted by the restrictive covenants of loan agreements and justified by consistent earnings performance. At 31 July 1975 the restrictive covenants of loan agreements prohibit the payment of dividends until working capital is increased by $6,725,000 plus the amount of the dividends to be paid. Dividends on common stock may not be resumed until stockholders' equity is increased by $29,238,000 plus the amount of any common dividends to be paid and until the company is current on all obligations to preferred stockholders.

Several of GENESCO's men's wholesale and manufacturing operations held their own, but the total results paralleled those of the men's apparel industry.

MEN'S APPAREL MANUFACTURING RESULTS

(IN THOUSANDS)

	1975	1974	1973	1972	1971
Sales	**$203,297**	240,733	236,554	241,781	208,378
Pretax Earnings (Loss)	**$ (11,502)**	2,841	(4,293)	1,861	6,815

In contrast to the general trend of the men's apparel industry, Phoenix Clothes continued its outstanding performance, significantly increasing its share of market during the year. Phoenix has proved adept at foreseeing and supplying the clothing that its customers want. For example, Phoenix de-emphasized sports coats in their line this year, and instead opened the Latitudes line, offering popular priced apparel for men with a "leisure attitude."

Generally, however, the men's apparel industry was severely affected by the recession. Beginning with the fall 1974 season, retailers cut back sharply on orders, waiting to see what the consumer would do in the face of rising inflation, unemployment, and a worsening economy. Manufacturers found themselves in the unenviable position of either building inventory (and financing it at record interest rates) in the hopes that orders would materialize, or stopping production and watching fixed costs mount up. GENESCO, whose men's companies in some cases experienced 20% to 30% declines in orders, chose not to gamble on inventories and took the latter course. Although this was expensive, it was less so than the alternative, because the orders remained low all year.

In the face of this situation, GENESCO's companies pushed hard to reduce expenses and costs. At the same time, they lowered overhead by reducing plant capacity. Six men's manufacturing plants were closed or sold in fiscal 1975.

L. Greif closed several plants and concentrated on rebuilding its market position. Greif has always had a reputation for great quality and fit, and extra efforts had to be made to maintain this reputation for quality during a declining market. In fiscal 1975, new emphasis was placed on piece goods, styling and maintaining traditional price points to meet the needs of an inflation conscious customer. In a key move after the close of the year, Greif's presidential vacancy was filled by one of the leading executives in the men's clothing industry.

Haywood, primarily a manufacturer of private label jeans, work clothes and western wear, strengthened its management team with a new president with a proven record of success in a competitive company. He joined Haywood at the end of the year, bringing in improved and profitable business with the major chains.

At the close of fiscal 1974, Harpeth Apparel was created to serve as a contract manufacturer of fashion jeans for companies both inside and outside of GENESCO. Since then, Harpeth has proved to be a profitable company because of its ability to turn quickly in manufacturing new styles in fashion jeans.

The branded hosiery business felt the recession as retailers cut back on purchases. They began to replenish stocks in the last quarter of fiscal 1975, and Camp Industries' business began to improve at that time. On the other hand, the popular priced unbranded hosiery business was not hurt as much by the recession, and Baker-Cammack continued to be profitable throughout the year.

Ainsbrooke/Flagg made significant progress in its efforts to develop its private label underwear business for department and specialty stores while becoming less dependent on the military and chain store business.

Although GENESCO's decision to halt production rather than build inventory resulted in immediate losses, it prevented the likelihood of a greater future loss from inventory write-downs. More importantly, it left GENESCO's menswear companies free to respond quickly to improvements in the economy.

Sportswear by Susan Thomas/Vivo and a leisure suit from the new Latitudes line of Phoenix Clothes.

In the face of volume declines consistent with the industry, GENESCO's women's and children's apparel companies regrouped, pared expenses, and tightened their lines.

WOMEN'S AND CHILDREN'S APPAREL MFG. RESULTS
(IN THOUSANDS)

	1975	1974	1973	1972	1971
Sales	**$212,209**	254,424	259,499	228,990	243,193
Pretax Earnings (Loss)	**$ (12,938)**	5,017	3,499	2,767	10,390

The women's and children's apparel industry was affected by the recession in much the same way as the men's industry. Steep declines in incoming orders caused layoffs, plant closings and other reductions. As production stayed at recession starved levels, fixed costs and overhead could not be covered and losses mounted.

There were some bright spots for GENESCO during the year, however. Mayfair Sportswear achieved another fine year. Rona Dress maintained volume in the face of a tough dress market. Add'ems, Berkshire's sportswear line, did well, and so did Sunshine Alley, Kenrose's new budget missy sportswear line, which exceeded expectations. Susan Thomas maintained its important position in the sportswear market, and Robby Len performed well in the swimwear area, despite a declining market. In the children's area, Justin Charles maintained its position of leadership in the children's and girls' sportswear markets.

During this period, a number of GENESCO's companies moved into areas with greater profit potential. For example, Rona Dress expanded its Dalani II line to include a knit dress operation: Dal Knittery. Susan Thomas, which formerly had been exclusively in knit sportswear, broadened its assortment to include wovens as well. New York Mackintosh, featuring fashion coats for girls and juniors, was coordinated with the Girltown line to give greater market penetration. In another move, GENESCO acquired the hosiery division of Van Raalte. This acquisition, made on highly favorable terms, gave the Charles H. Bacon Company a substantial position in the branded women's hosiery market, as well as providing substantial additional utilization of existing manufacturing facilities.

During fiscal 1975, an outstanding marketing talent was brought into the children's area. This has resulted in an increasing department and specialty store volume in addition to maintaining their business with volume accounts.

After the close of the fiscal year, GENESCO developed a new concept, the Geisha Robe Company, for Greensboro, a manufacturer of women's and children's robes and sleepwear. Greensboro's primary business is with major chain stores, and Geisha will give it an entry into the department and specialty store business.

During the recession, GENESCO's women's and children's companies moved to reposition themselves in potentially profitable areas of operations.

Stringent cost control, streamlining of the manufacturing organization, a reduction in capacity and tight control of capital enabled GENESCO's domestic footwear manufacturing and wholesale operations to increase earnings in a difficult environment.

FOOTWEAR WHOLESALE & MFG. RESULTS

(IN THOUSANDS)

	1975	1974	1973	1972	1971
Sales	**$290,253**	305,082	362,697	305,607	257,788
Pretax Earnings	**$ 15,324**	14,362	13,463	17,092	17,088

The recession significantly complicated the problems which faced GENESCO's footwear operations this year. Retailers drastically reduced order levels and delayed order placements in an effort to keep inventories in balance with decreasing sales. Moreover, a high rate of inflation during the first half of the year kept costs increasing at a time when the economy made it difficult to raise prices.

To cope with these problems, strong steps were taken to reduce operating costs through an extensive cost reduction program and the closing of two factories and one processing facility. In addition, plans to replace an older manufacturing plant were postponed until the general business climate improves. Additional measures were taken to improve product quality and to find ways to reduce labor and material costs. As a result the manufacturing operations completed the year with stronger earnings.

The wholesale marketing operations experienced differing circumstances during the year. Early in the year the men's divisions, especially at the top of the market, maintained their strong performance longer than other areas. However, when they finally began to reflect the sagging economy, they declined sharply and were slower to recover. Only in the last quarter did they begin to regain momentum. As might be expected, the work shoe business was hit hard as unemployment rose.

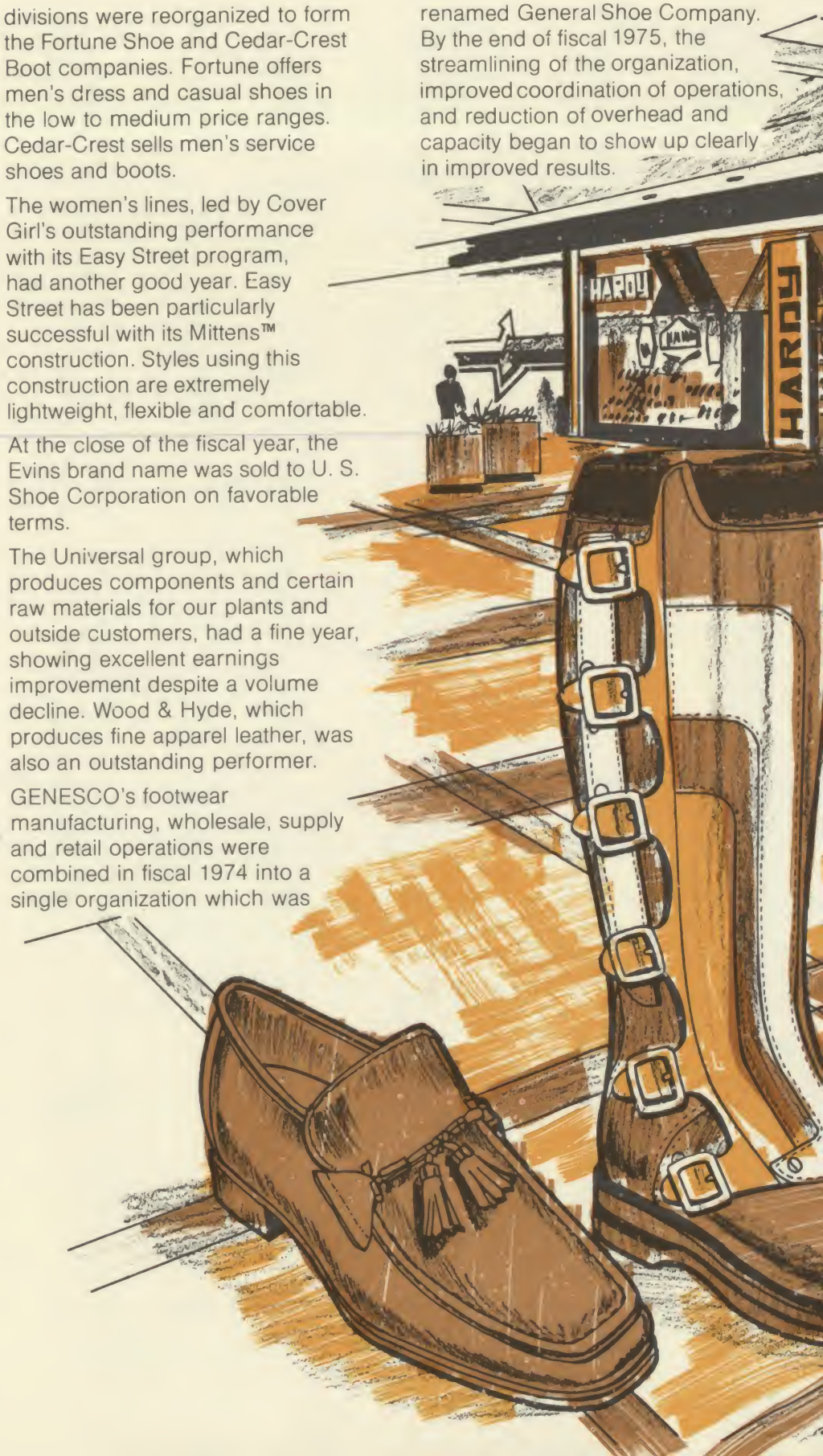
During the year, three men's shoe lines were consolidated into two expanded divisions. The Douglas, Sandy McGee and Cedar-Crest divisions were reorganized to form the Fortune Shoe and Cedar-Crest Boot companies. Fortune offers men's dress and casual shoes in the low to medium price ranges. Cedar-Crest sells men's service shoes and boots.

The women's lines, led by Cover Girl's outstanding performance with its Easy Street program, had another good year. Easy Street has been particularly successful with its Mittens™ construction. Styles using this construction are extremely lightweight, flexible and comfortable.

At the close of the fiscal year, the Evins brand name was sold to U. S. Shoe Corporation on favorable terms.

The Universal group, which produces components and certain raw materials for our plants and outside customers, had a fine year, showing excellent earnings improvement despite a volume decline. Wood & Hyde, which produces fine apparel leather, was also an outstanding performer.

GENESCO's footwear manufacturing, wholesale, supply and retail operations were combined in fiscal 1974 into a single organization which was renamed General Shoe Company. By the end of fiscal 1975, the streamlining of the organization, improved coordination of operations, and reduction of overhead and capacity began to show up clearly in improved results.



GENESCO's footwear stores and leased departments did not catch up to the previous year's performance until February, but they continued to improve in the last five months of fiscal 1975.

RETAILING: FOOTWEAR RESULTS

(IN THOUSANDS)

	1975	1974	1973	1972	1971
Sales	**$165,291**	163,867	169,087	163,535	141,740
Pretax Earnings	**$ 5,611**	8,390	9,748	8,362	6,756

Footwear from Johnston & Murphy, Cedar-Crest Boot Company, and Easy Street Shoes from the Cover Girl division in front of one of the newer Hardy Shoe stores.

Footwear retailing operations were sharply affected in the first half of the fiscal year as unemployment and inflation cut into disposable income. As business declined, inventories accumulated. Action was taken to get inventories back in the proper balance, and by the end of the first six months, sales began to exceed year ago levels.

The stores offering lower priced footwear declined first as the economy slipped, but they also proved to be the first to recover. Flagg Bros. and Hardy, the high fashion, popular priced men's stores, recovered by December, but the Jarman and Johnston & Murphy stores began to show improvement only in the closing months of the fiscal year.

The women's shoe retailing divisions completed the store closing program begun the previous year. On a constant store basis, Holiday was running 10% ahead by the end of the fiscal year. The family shoe business did not begin to improve until Easter. Also affecting these results was Berland's decision to remove its leased family shoe departments from a major chain of stores. Despite the resulting loss of volume, the wisdom of this decision was subsequently shown when the chain experienced severe financial problems.

Although the first six months of fiscal 1975 resulted in reduced earnings of GENESCO's footwear retail operations, business picked up encouragingly in the second half and especially in the last quarter.

Apparel specialty store sales were hit hard by the recession and did not begin to improve until the fourth quarter of fiscal 1975.

RETAILING: APPAREL RESULTS

(IN THOUSANDS)

	1975	1974	1973	1972	1971
Sales	**$261,736**	277,452	269,401	265,910	244,284
Pretax Earnings (Loss)	**$ (5,126)**	2,723	2,710	740	8,540

Although both men's and women's specialty stores felt the effects of the recession, men's specialty stores were hardest hit. GENESCO's men's stores were no exception. First, men tend to postpone apparel purchases during periods of economic decline. Second, the boom in leisure suits and other casual wear cut into the traditional men's store business. Leisure suits reduced sales of tailored suits, but they demolished the sport coat business. And because the unit price of leisure suits averages well below that of tailored clothing, dollar volume fell although unit volume was relatively unchanged.

GENESCO's men's specialty stores responded to these conditions in several ways. First, they moved to tighten operations, further reducing expenses and overhead wherever possible. Second, they redirected their merchandise mix to bring in leisure suits and other fast moving casual styles. Third, several marginal stores in areas of decreasing potential were closed, and the capital saved was redistributed where it would be more productive. Fourth, after the close of the fiscal year, two Frank Bros. stores in Chicago, which sold traditional clothing, were converted to Whitehouse & Hardy, which offers a high fashion look. Since this conversion took place, volume in these two stores has increased almost 60%.

In the women's specialty area, both Plymouth Shops and Henri Bendel had exceptional years. Although dissimilar, these two operations are successful because they have clearly defined their customers and carefully catered to their needs over a period of years. At the same time both have kept expenses and overhead in tight control.

Bonwit Teller was in the midst of implementing major internal programs when the effects of the recession began to be felt. As a result, the completion of the programs was delayed as were the bottom line results. By the end of fiscal 1975, however, the various programs were mostly completed, and positive results are expected to begin to appear in fiscal 1976.

The results of the S. H. Kress variety store chain are not included in GENESCO's consolidated figures. However, the restructured Kress operation has dramatically improved its performance. Sales of the 170 store company increased 8%, and it is now operating profitably.

Although GENESCO's apparel retail operations showed a loss, their performance improved measurably toward the end of the fiscal year. More importantly, in the last quarter of fiscal 1975, sales began to exceed the previous year's figures despite 12% fewer units.

The Fifth Avenue store of Plymouth Shops and the newly renamed Whitehouse & Hardy store in Chicago.

Another profitable performance by the Canadian operations plus a dramatic improvement at Charles Jourdan enabled GENESCO's international operations to maintain their position.

INTERNATIONAL OPERATIONS RESULTS

(IN THOUSANDS)

	1975	1974	1973	1972	1971
Sales	**$172,411**	186,266	169,475	163,546	157,726
Pretax Earnings	**$ 5,510**	7,087	6,334	5,885	6,111

GENESCO's Canadian operations produced another profitable year. Although the recession was felt in Canada, its effects were generally not as severe as in the United States. Agnew-Surpass turned in another superlative performance despite having two fewer stores. Formfit Canada, under the leadership of a new president, put new items into the line, attracting increased attention from both specialty stores and volume retailers. General Shoe of Canada did experience a sales slowdown early in the year as retailers liquidated inventories. Once past this period, however, the company's sales began to improve.

British Rubber, a maker of all-weather boots, was adversely affected by the mildest Canadian winter in 46 years. Rather than wait for a change in the weather, British Rubber diversified into leather work shoes and boots and cement construction dress and casual shoes. J. A. Johnston closed a number of small volume unprofitable shoe stores, enabling it to concentrate on its larger volume units.

During fiscal 1975 there were further divestments in GENESCO's unprofitable European operations. The corporation sold Eterna Germany, a manufacturer of men's shirts in Germany and Austria, Bohne, a German manufacturer of women's robes, Chaussures Rehault, a French footwear manufacturer, France Arno, a footwear retailer, and Ultimoda and Bellanca e Amalfi, two Italian men's and women's specialty stores.

The remaining European operations did quite well. Charles Jourdan, recognized internationally as the leader in women's fashion footwear, produced dramatic increases in sales and earnings. Delmar, a manufacturer of fashion swim and beach wear, also continued its fine performance.

Careful development and pruning of operations have concentrated GENESCO's operations in those areas with greater earnings potential.

The Charles Jourdan store on Fifth Avenue in New York.

See summary of accounting policies and notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET 31 July

	1975	1974
Assets		
CURRENT ASSETS:		
Cash	**$ 14,477,000**	$ 9,192,000
Receivables	**26,544,000**	39,711,000
Inventories	**232,013,000**	278,549,000
Fixed assets held for resale	**6,796,000**	8,466,000
Prepaid expenses	**677,000**	679,000
Future tax benefits	**11,500,000**	22,000,000
TOTAL CURRENT ASSETS	**292,007,000**	358,597,000
Investments and long-term receivables	**25,105,000**	8,771,000
Future tax benefits	**38,493,000**	28,603,000
Plant, equipment and lease rights	**138,799,000**	146,027,000
Debt discount	**454,000**	667,000
Investment in excess of equity	**12,567,000**	12,807,000
TOTAL ASSETS	**$507,425,000**	$555,472,000
Liabilities and Stockholders' Equity		
CURRENT LIABILITIES:		
Accounts and drafts payable, accrued expenses, taxes and current portion of long-term debt	**$113,121,000**	$102,987,000
Provision for discontinued operations	**3,938,000**	8,419,000
TOTAL CURRENT LIABILITIES	**117,059,000**	111,406,000
Long-term debt	**96,687,000**	107,860,000
Lease obligations	**64,378,000**	73,735,000
Minority interests	**122,000**	402,000
Provision for discontinued operations	**12,773,000**	17,223,000
Deferred credits to income	**7,762,000**	14,958,000
Stockholders' equity	**208,644,000**	229,888,000
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	**$507,425,000**	$555,472,000

CONSOLIDATED STOCKHOLDERS' EQUITY 31 July

	1975	1974
$4.50 Cumulative Convertible Preferred	**$ 1,895,000**	$ 1,995,000
Subordinated Cumulative Convertible Preference		
$4.25 Series A	**2,000**	2,000
$6.00 Series B	**290,000**	293,000
$6.00 Series C	**276,000**	284,000
Subordinated Serial Preferred		
$2.30 Series 1	**74,000**	74,000
$2.40 Series 2	**6,617,000**	8,826,000
$4.75 Series 3	**169,000**	169,000
$4.75 Series 4	**110,000**	110,000
$4.75 Series 5	**159,000**	193,000
Employees' Subordinated Convertible Preferred	**1,353,000**	1,358,000
Total preferred	**10,945,000**	13,304,000
Common stock at $1 par	**12,969,000**	12,964,000
Additional paid-in capital	**130,370,000**	132,501,000
Earnings retained in business	**83,036,000**	101,509,000
	237,320,000	260,278,000
Less treasury stock, at cost	**28,676,000**	30,390,000
TOTAL STOCKHOLDERS' EQUITY	**$208,644,000**	$229,888,000

See summary of accounting policies and notes to consolidated financial statements.

CONSOLIDATED EARNINGS STATEMENT

Year ended 31 July

	1975	1974
Net sales	**$1,095,972,000**	$1,184,727,000
Cost of sales	**772,491,000**	819,867,000
Selling, administrative and general expenses	**300,922,000**	303,356,000
Interest expense	**26,631,000**	24,768,000
	1,100,044,000	1,147,991,000
Pretax earnings (loss) of U.S. and Canadian operations	**(4,072,000)**	36,736,000
Income taxes	**(3,791,000)**	(17,274,000)
Minority interests	**—0—**	(204,000)
Nonconsolidated companies:		
Equity in losses	**(3,750,000)**	(2,547,000)
Gain (loss) on divestments	**(2,684,000)**	417,000
Net earnings (loss)	**$ (14,297,000)**	$ 17,128,000
EARNINGS (LOSS) PER COMMON SHARE		
Primary	**$(1.41)**	$1.07
Fully Diluted	**$(1.41)**	$ .99

CONSOLIDATED ADDITIONAL PAID-IN CAPITAL

Year ended 31 July

	1975	1974
Balance at beginning of year	**$132,501,000**	$134,376,000
Expenses relating to capital stock issuances	**(69,000)**	(152,000)
Principal amount of notes issued and stated value of preferred stock converted in excess of preferred stock exchanged and common shares issued	**(434,000)**	(1,720,000)
Redemption of preferred stock	**(80,000)**	(9,000)
Cost of treasury stock in excess of market value at date reissued	**(1,548,000)**	6,000
BALANCE AT END OF YEAR	**$130,370,000**	$132,501,000

CONSOLIDATED EARNINGS RETAINED IN BUSINESS

Year ended 31 July

	1975	1974
Balance at beginning of year	**$101,509,000**	$ 88,607,000
Net earnings (loss)	**(14,297,000)**	17,128,000
Preferred dividends paid	**(1,764,000)**	(3,721,000)
Redemption of preferred stock	**(2,412,000)**	(505,000)
BALANCE AT END OF YEAR	**$ 83,036,000**	$101,509,000

See summary of accounting policies and notes to consolidated financial statements.

CONSOLIDATED CHANGES IN FINANCIAL POSITION

Year ended 31 July	1975	1974
SOURCE OF WORKING CAPITAL:		
Net earnings (loss)	**$(14,297,000)**	$ 17,128,000
Depreciation and amortization of plant and equipment	**9,947,000**	10,237,000
Amortization of lease rights	**7,229,000**	6,308,000
Other charges to earnings not requiring funds	**4,581,000**	809,000
Working capital provided from operations	**7,460,000**	34,482,000
Long-term debt issued	**446,000**	1,763,000
Plant and equipment sales	**2,727,000**	3,417,000
Additions to lease obligations capitalized	**6,110,000**	12,200,000
	$ 16,743,000	$ 51,862,000
USE OF WORKING CAPITAL:		
Preferred dividends paid	**$ 1,764,000**	$ 3,721,000
Redemptions and conversions of preferred stock	**5,284,000**	4,631,000
Long-term debt paid or charged against working capital	**11,619,000**	6,917,000
Payments charged to lease obligations	**15,467,000**	14,690,000
Change in future tax benefits	**10,882,000**	(13,132,000)
Other changes in investments and long-term receivables	**21,142,000**	853,000
Reserve items affecting working capital	**5,599,000**	10,167,000
Plant and equipment purchases, including lease rights capitalized	**12,942,000**	17,699,000
Acquisition of goodwill and minority interests	**525,000**	2,949,000
Other uses (sources) of working capital	**3,762,000**	(17,000)
Increase (Decrease) in working capital	**(72,243,000)**	3,384,000
	$ 16,743,000	$ 51,862,000
Increase (Decrease) in working capital:		
Cash	**$ 5,285,000**	$ (3,283,000)
Receivables	**(13,167,000)**	(4,382,000)
Inventories	**(46,536,000)**	2,075,000
Fixed assets held for resale	**(1,670,000)**	(4,101,000)
Prepaid expenses	**(2,000)**	(55,000)
Future tax benefits	**(10,500,000)**	500,000
Total current assets	**(66,590,000)**	(9,246,000)
Current liabilities	**(5,653,000)**	12,630,000
Working capital	**$(72,243,000)**	$ 3,384,000

See summary of accounting policies and notes to consolidated financial statements.

GENESCO FINANCIAL CORPORATION AND SUBSIDIARY

Consolidated Balance Sheet 31 July

Assets	**1975**	1974
Cash	**$ 1,178,000**	$ 597,000
Accounts receivable purchased from GENESCO less contract reserve withheld	**121,094,000**	128,184,000
Notes receivable—Trustee of GENESCO employee stock purchase plans	**8,000,000**	8,000,000
Notes receivable—other	**807,000**	2,167,000
Prepaid interest	**655,000**	1,568,000
Investments and other assets	**360,000**	370,000
Deferred long-term note expense	**342,000**	383,000
	$132,436,000	$141,269,000
Liabilities and Stockholders' Equity		
Notes payable to banks	**$ 59,250,000**	$ 68,550,000
Accrued liabilities	**1,552,000**	3,166,000
Long-term debt		
8.25% Senior Notes with annual installments of $4,000,000 beginning 31 March 1979	**40,000,000**	40,000,000
8.75% Senior Subordinated Notes with annual installments of $1,000,000 beginning 31 March 1979	**10,000,000**	10,000,000
Stockholders' equity	**21,634,000**	19,553,000
	$132,436,000	$141,269,000

SUMMARY OF ACCOUNTING POLICIES

Basis of consolidation: The consolidated financial statements include the accounts of the company and all domestic and Canadian subsidiaries, except GENESCO Financial Corporation. Nonconsolidated subsidiaries and affiliates are carried at cost adjusted for undistributed earnings or losses since acquisition. The company's equity in income or losses of these subsidiaries is included in the consolidated earnings statement after provision for income taxes where appropriate.

The income before taxes of GENESCO Financial Corporation is included in the consolidated earnings statement as a reduction of interest expense with the related income tax included in income taxes. The combined results of all other nonconsolidated subsidiaries are included as a single item in the consolidated earnings statement.

Inventories: Inventories are stated at the lower of approximate average cost or market determined, in wholesaling and manufacturing companies, principally on the first-in, first-out method. Inventories of retail companies are determined by the retail method.

Plant, equipment and lease rights: Plant and equipment carried at cost, including lease rights, are depreciated or amortized over the estimated useful life of the related assets. Depreciation and amortization expense is computed principally by the straight-line method.

Income taxes: Deferred income taxes are provided to recognize the effect of timing differences between financial statement and income tax accounting for items such as depreciation, sale and leaseback transactions, reserves for lease commitments on closed stores, profits on installment sales and deductions related to accounts receivable.

Federal income taxes are reduced by the investment tax credit using the flow-through method.

Amortization of intangibles: The excess of cost over equity of purchased companies reflected in the consolidated financial statements is being amortized over a forty year period. Gains from the sale and leaseback of plant and equipment are being amortized over the lives of the respective leases.

Translation of foreign currencies: The financial statements of Canadian and nonconsolidated foreign subsidiaries and affiliates are translated into U.S. dollar equivalents applying exchange rates in effect at year end to current assets and liabilities and historical rates to noncurrent assets and liabilities. Income and expense accounts are translated at rates prevailing during the year.

Translation gains are deferred indefinitely unless offset by related losses, in which case the excess is charged to income currently. Translation adjustments originating during the two years resulted in a charge to the reserve of $6,400,000 in 1975 and $1,743,000 in 1974. Revaluation reserves included in deferred income credits on the consolidated balance sheet amounted to $24,000 at 31 July 1975 and $6,424,000 at 31 July 1974.

Had long-term liabilities in the consolidated balance sheet been translated at year end rates, long-term debt would not have changed in 1975 and would have increased by $3,595,000 in 1974. There are no long-term receivables involving foreign currencies in the consolidated balance sheet.

Retirement plans: The company funds pension costs accrued as determined by its independent actuaries.

Earnings per common share: Primary earnings per share are computed by dividing net earnings after deducting preferred dividends paid or accrued by average common shares and common share equivalents outstanding. In the computation of fully diluted earnings per common share, earnings and average common shares are appropriately adjusted for outstanding dilutive securities.

Reclassification of 1974 Financial Statements: Certain minor reclassifications have been made to the 1974 financial statements to conform to 1975 classifications.

Note 1—Accounts Receivable and Inventories

See page 6 of the Financial Review for detail.

Note 2—Investments and Long-Term Receivables

	1975	1974
Investments in nonconsolidated subsidiaries and affiliates	**$22,439,000**	$4,927,000
Other investments, at cost	**2,510,000**	3,658,000
Employees' secured stock purchase accounts	**156,000**	186,000
TOTALS	**$25,105,000**	$8,771,000

See page 7 of the Financial Review for additional information.

Note 3—Plant, Equipment and Lease Rights

	1975	1974
Land	**$ 1,657,000**	$ 1,989,000
Buildings and building equipment	**9,437,000**	9,691,000
Machinery, furniture and fixtures	**86,035,000**	89,468,000
Construction in process	**991,000**	1,347,000
Improvements to leased property	**55,891,000**	53,615,000
Lease rights capitalized	**109,043,000**	105,888,000
	263,054,000	261,998,000
Less accumulated depreciation and amortization	**124,255,000**	115,971,000
TOTALS	**$138,799,000**	$146,027,000

Note 4—Long-Term Debt

	1975	
	Current	Noncurrent
4.75% convertible subordinated note dated July 1962, due 1982 with annual payments of $25,000; convertible into common stock at $25.20 per share	$ 25,000	$ 400,000
4.875% obligation dated October 1970, due 1977 with annual payments of $1,238,000	1,238,000	1,238,000
5.00% notes dated July 1964, due 1984 with annual payments of $2,000,000	2,000,000	28,000,000
5.25% notes dated February 1961, due 1981 with annual payments of $938,000	938,000	8,743,000
7.25% & 7.50% Deutsch Mark notes payable to foreign banks dated July 1969, due July 1976	7,534,000	—0—
9.25% notes dated November 1970, due November 1976	—0—	50,000,000
6.50% convertible subordinated debentures (series A) due 1987; convertible into common stock at $41.67 per share	—0—	1,172,000
6.50% convertible subordinated debentures (series B) due 1987; convertible into common stock at $45.45 per share	—0—	4,244,000
Notes payable incurred by companies prior to acquisition due in varying amounts to 1984 at various interest rates from 4.00% to 8.00%	876,000	2,890,000
TOTAL	$12,611,000	$96,687,000

The company guarantees all payments on long-term convertible debentures of $12,383,000 of a nonconsolidated foreign finance subsidiary. The guarantee is subordinated to the prior payment in full of all present and future senior indebtedness. At 31 July 1975 the restrictive covenants of loan agreements prohibit the payment of dividends until working capital is increased by $6,725,000 plus the amount of the dividends to be paid. Dividends on common stock may not be resumed until stockholders' equity is increased by $29,238,000 plus the amount of any common dividends to be paid and the company is current on all obligations to preferred stockholders. At 31 July 1975 preferred dividends in arrears amounted to $1,694,000.

Note 5—Income Taxes

Operating loss carryforward benefits applicable to years prior to 1975 have been recognized as assets in the consolidated balance sheet and will be used to offset taxes otherwise payable on future profits. The majority of these carryforward losses expire during the years 1977-1980 and management feels their utilization is assured beyond a reasonable doubt. *See page 7 of the Financial Review for additional information.*

Income tax expense is composed of the following:

	1975	1974
Current tax expense:		
U.S. Federal	**$ —0—**	$14,075,000
Canadian	**3,677,000**	3,723,000
State	**114,000**	1,476,000
Deferred tax expense		
U.S. Federal	**—0—**	(2,000,000)
TOTALS	**$3,791,000**	$17,274,000

The most significant items included in the deferred U.S. Federal tax provision for 1974 relate to reserves for lease commitments on closed stores and depreciation amounting to $1,881,000.

Application of the Federal Statutory rate of 48% to the 1975 pretax loss of U.S. and Canadian operations results in a negative income tax provision of $1,955,000. The consolidated positive tax provision of $3,791,000 varies from the negative statutory provision principally because no tax benefit has been recognized in the financial statements relating to losses incurred by U.S. operations in 1975 while positive taxes have been provided for Canadian operations.

The effective tax rate on pretax income of U.S. and Canadian operations was 47% in 1974. The items creating the difference between this effective rate and the 48% federal statutory rate are as follows:

	1974
Provision for taxes at 48%	$17,633,000
Add (Deduct) tax effect on:	
Amortization of goodwill	222,000
Amortization of deferred sale/leaseback gains	(114,000)
Other	(599,000)
Variation between Canadian and U.S. tax rate	(62,000)
Investment tax credits	(574,000)
State taxes, net of Federal tax benefit	768,000
TOTAL	$17,274,000

As stated in prior years, the company has received reports from the Internal Revenue Service on the results of their examination of the company's and its subsidiaries' tax returns for fiscal years 1964 through 1969. During fiscal 1975 the company received reports from the Internal Revenue Service on their examination of its tax returns for fiscal years 1970-1972.

The company has held extensive discussions with the IRS, but has been unable to reach any agreement. Along with the proposed adjustments, the IRS states that they have not been able to make an exact determination of the net amount of the deficiencies that would be claimed against the company and its subsidiaries as a group due to duplications in tax liabilities asserted. The company, continuing to rely on advice of tax counsel, is satisfied that, while a number of complex issues have been raised, any tax deficiencies which may ultimately be determined for the nine year period will not materially affect its financial position and results of operations.

Note 6—Rentals and Lease Commitments

For purposes of the following disclosure, the company has made a distinction in leases of its continuing operations between non-capitalized "financing" lease arrangements, defined as leases covering 75% or more of the estimated useful life of the property or which require payments over the lease term which provide the lessor with recovery of his investment plus interest, and "other" leases.

Total rental expense for the two years ended 31 July was as follows (in thousands):

	1975	1974
Financing Leases:		
Minimum Rentals	**$ 6,171**	$ 6,316
Contingent Rentals	**237**	459
Sublease Rentals	**(215)**	(260)
	6,193	6,515
Other Leases:		
Minimum Rentals	**33,362**	32,526
Contingent Rentals	**2,266**	2,542
Sublease Rentals	**(1,069)**	(866)
	34,559	34,202
TOTAL	**$40,752**	$40,717

Minimum non-cancellable long-term lease commitments (reduced by sublease rentals) are payable in future periods as follows (in thousands):

Fiscal Year	Financing Leases	Other Leases	Net Rental Commitment
1976	$ 5,224	$20,156	$25,380
1977	4,966	18,133	23,099
1978	4,473	16,178	20,651
1979	4,353	13,379	17,732
1980	4,218	9,852	14,070
1981-1985	15,848	33,647	49,495
1986-1990	8,516	18,047	26,563
1991-1995	1,538	5,222	6,760
After 1995	98	330	428

In addition to fixed annual rentals, some leases provide that the company will pay real estate taxes and other expenses and in certain cases additional rentals based on sales. Renewal options exist for most long-term leases.

The present values of minimum lease commitments under noncapitalized financing leases at 31 July are as follows (in thousands):

	1975	1974
Retail real property	**$26,867**	$29,065
Wholesale & manufacturing real property	**10,916**	11,903
Other	**476**	778
	38,259	41,746
Present value of sublease rentals	**(1,682)**	(1,584)
TOTAL	**$36,577**	$40,162

The range and weighted average interest rates used in the computation of the above present values are as follows:

	Range	Average
Retail real property	2.0-8.5%	5.1%
Wholesale & manufacturing real property	1.2-6.5%	4.8%
Other	5.5-7.0%	6.8%
Present value of sublease rentals	4.0-6.5%	5.8%

If such financing leases were capitalized the effect on net earnings (Loss) would be less than 1%.

Note 7—Retirement Plans

Pension expense charged to earnings amounted to $2,941,000 in 1975 and $2,210,000 in 1974. The Employee Retirement Income Security Act of 1974 mandates many pension plan requirements including vesting, participation and minimum funding. GENESCO must amend its retirement plan to conform to certain provisions of this Act which will become effective in 1976. The effect of such changes will not be determinable until a review of the plan is completed by the Company.

Note 8—Stockholders' Equity

Distinguishing characteristics of preferred and preference stock

	Shares Authorized	Shares Issued at 31 July		Per Share			Common Convertible Ratio
		1975	1974	Stated Value	Liquidation Value*	Redemption Price*	
$4.50 Cumulative Convertible Preferred	82,368	18,951	19,949	$100.00	$100.00	$102.50	3.75000
Subordinated Cumulative Convertible Preference							
$4.25 Series A	68,943	600	600	3.00	100.00	100.00	Non Convert.
$6.00 Series B	161,981	121,144	122,173	2.40	100.00	102.00	2.40000
$6.00 Series C	269,291	125,597	129,001	2.20	100.00	103.00	2.20000
Subordinated Serial Preferred							
$2.30 Series 1	131,826	89,337	89,337	.83	41.60	41.60	.83330
$2.40 Series 2	395,626	165,436	220,643	40.00	47.00	47.00	Non Convert.
$4.75 Series 3	105,875	80,058	80,058	2.11	100.00	104.00	2.10526
$4.75 Series 4	103,000	65,648	65,648	1.67	100.00	104.00	1.51510
$4.75 Series 5	122,500	98,474	119,871	1.61	100.00	104.00	1.61290
Subordinated Cumulative Preferred	5,000,000	105	105	1.00	30.00	30.00	Non Convert.
Employees' Subordinated Convertible Preferred	5,000,000	1,353,103	1,358,128	1.00	30.00	Non Redeem.	1.00000

*Before adding effect of dividends in arrears.

The total liquidating value of preferred stocks was $95,594,000 at 31 July 1975 including $1,694,000 dividends in arrears and $98,922,000 at 1974.

At 31 July 1975 there were 20,000,000 common shares authorized and 12,968,751 issued compared to 12,963,720 issued at 31 July 1974. Common shares reserved at 31 July 1975 for conversion of senior securities and employee stock plans amounted to 2,650,892 and 1,159,505 respectively.

Each share of subordinated cumulative convertible preference stock, Series B and C, in addition to being convertible into common stock, is exchangeable for $100 principal amount of 6.50% convertible subordinated debentures due 1987. On 25 March 1975 the Board of Directors of the company voted not to declare dividends on all preferred and preference stock issues. As a result of this action, the exchange right was suspended.

Provisions of the Subordinated Serial Preferred Stock, Series 2 require the company to place approximately $2,500,000 in a sinking fund on or before each 1 January of calendar years 1976-1978, for redemption during the calendar year of 20% of the shares of Series 2 stock originally issued.

Provisions of the Subordinated Serial Preferred Stock, Series 5 require the company to offer during November of 1975-1978 to redeem, on the succeeding 31 December, 20% of the shares of Series 5 stock originally issued. Approximately $2,500,000 annually will be required to accomplish such redemptions.

Changes in the shares of the company's capital stock
Year ended 31 July 1975 and 1974

	Common		Preferred	
	Issued	Treasury	Employees'	Other
Balance at 31 July 1973	12,958,311	538,458	1,363,537	922,624
Redemptions	—0—	—0—	—0—	(57,657)
Conversion of securities	5,409	—0—	(5,409)	(17,582)
Employee options and purchase plans	—0—	(1,293)	—0—	—0—
Balance at 31 July 1974	12,963,720	537,165	1,358,128	847,385
Issuance of treasury stock*	—0—	(55,000)	—0—	—0—
Redemptions	—0—	—0—	—0—	(77,602)
Conversion of securities	5,031	—0—	(5,025)	(4,433)
	12,968,751	482,165	1,353,103	765,350
Less treasury stock	482,165		301,677	1,860
Outstanding at 31 July 1975	12,486,586		1,051,426	763,490

*Incentive shares issued to former stockholders of companies acquired in prior years.

Note 9—Employee Stock Plans

The company offers to all eligible employees, under the savings fund employee stock purchase plan, options to purchase shares of its common stock two years subsequent to date of grant.

Transactions under the savings fund-employee stock purchase plan during each year and shares reserved for possible future options are summarized below:

	1975	1974
Options outstanding beginning of year	**38,974**	163,494
Options granted	**80,001**	—0—
Options exercised	**—0—**	—0—
Options terminated	**(66,292)**	(124,520)
Options outstanding end of year	**52,683**	38,974
Shares reserved for possible future options	**1,106,822**	1,120,531
Total shares reserved	**1,159,505**	1,159,505
Option price of outstanding options	**$10.54**	$15.58

Note 10—Pending Legal Proceedings

The company, certain of its present or former officers and directors, and its independent certified public accountants are defendants in an alleged "class" action filed in February 1974 in the U.S. District Court for the Southern District of New York. In general, the complaint charges that, since 1968, defendants have published false and misleading financial statements and reports in violation of federal securities laws and, as a result, the price of the company's common stock was inflated to an artificially high level. The complaint seeks damages in an unspecified amount. The defendants answered this complaint by denying its substantive allegations and asserting certain affirmative defenses. Thereafter, plaintiff filed a motion seeking a determination that the case should proceed as a class action. Defendants opposed this motion and there has been no ruling on that motion.

Another action against substantially the same defendants was filed in August 1973 by a stockholder and former employee of the company in the United States District Court for the Northern District of California which charges that, since at least prior to 1965, defendants have engaged in violation of federal securities laws in connection with various financial reports and releases published by the company as well as in connection with the 1966 agreement under which the company acquired the assets of Roos/Atkins, a chain of retail apparel stores operating principally in Northern California, in

Note 10—Pending Legal Proceedings (continued)

which the plaintiff had a substantial interest. The complaint seeks rescission of the sale of Roos/Atkins and damages in an unspecified amount. The company has denied plaintiff's charges and asserted certain affirmative defenses. The case is presently scheduled for trial in November 1975.

In April 1974, the United States Court of Appeals for the Fifth Circuit affirmed in part and reversed in part a lower court dismissal of a complaint filed by certain shareholders of Leeds Shoes, Inc. against GENESCO, GENESCO Financial Corporation ("GFC") and certain of its employees, and others claiming violations of the federal securities laws. The suit claims the company is liable as a "controlling person" of Leeds Shoes, Inc., within the meaning of the federal securities laws, and seeks damages in the amount of approximately $20,000,000. In light of the Court of Appeal's holding that plaintiffs have stated some claims sufficient to require the defendants to answer, the company, GFC and its employees who are defendants have responded to the complaint, denying its substantive allegations and asserting various affirmative defenses. Plaintiffs have filed a motion seeking to have the case proceed as a class action, which defendants have opposed. The class action motion and others are presently pending before the Court.

In October 1974, a federal grand jury in New York City returned an indictment charging the company (through its Bonwit Teller Division), two other retailing firms and an executive from each of the other firms, with fixing prices of women's clothing in the New York metropolitan area in violation of Section 1 of the Sherman Antitrust Act. In February 1975, the company, along with the other corporate defendants, entered a plea of *nolo contendere* to the indictment, and was fined $50,000, which has been paid. In connection with the grand jury indictment, the United States Department of Justice filed a civil antitrust complaint in the United States District Court for the Southern District of New York against the corporate defendants only, including the company, based upon the same charges as are contained in the indictment, seeking an injunction against the conduct alleged to have taken place. The company's time to respond to the government's civil complaint has not yet expired.

In addition to the government actions, the company has been served as a defendant in a number of purported "class" actions also filed in the Southern District of New York and one in the District Court in Chicago. Each of these actions seeks to recover damages in an unspecified amount on behalf of an alleged class of charge account customers of the defendant's stores, based upon the same alleged violations claimed in the above described indictment. The company has filed answers in all the actions, denying the substantive allegations. In July 1975, the court in New York issued a memorandum decision and order, holding that the actions filed there may proceed for the present time as consolidated class actions, subject to possible reconsideration after discovery is completed. The class in the case of the company includes those charge account customers of Bonwit Teller as of October 1974 who have billing addresses in the New York metropolitan area or Fairfield County, Connecticut, and who purchased at least $250 worth of women's clothing from Bonwit Teller stores in the New York metropolitan area since 1 January 1968. No determination has been sought or made with respect to the claimed class in the Chicago action.

While the outcome of the actions described above cannot be determined at the present time, the company believes their ultimate disposition will not have a material effect on its financial position.

Peat, Marwick, Mitchell & Co.
Certified Public Accountants
First American Center
Nashville, Tennessee 37238

The Board of Directors and
Stockholders
GENESCO Inc.:

We have examined the consolidated balance sheets of GENESCO Inc. and consolidated subsidiaries as of 31 July 1975 and 1974 and the related consolidated statements of earnings, earnings retained in business, additional paid-in capital and changes in financial position for the years then ended. We have also examined the consolidated balance sheets of GENESCO Financial Corporation as of 31 July 1975 and 1974. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of GENESCO Inc. and consolidated subsidiaries and of GENESCO Financial Corporation at 31 July 1975 and 1974, and the results of operations and the changes in financial position of GENESCO Inc. and consolidated subsidiaries for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

21 August 1975

FIVE YEAR SUMMARY OF OPERATIONS AND OTHER DATA

FISCAL YEARS ENDED 31 JULY:

	1975	1974	1973	1972	1971
Net Sales	**$1,095,972**	1,184,727	1,224,550	1,158,933	1,064,956
Cost of Sales	**$772,491**	819,867	855,320	794,521	710,464
Gross Margin	**$323,481**	364,860	369,230	364,412	354,492
Selling, Administrative and General Expenses	**$300,922**	303,356	321,049	309,939	282,770
Interest Expense	**$26,631**	24,768	17,299	15,062	14,975
Pretax Earnings (Loss) from Operations	**$(4,072)**	36,736	30,882	39,411	56,747
Income Taxes	**$3,791**	17,274	14,507	16,487	25,299
Minority Interests	**$ —0—**	204	337	173	216
Nonconsolidated Companies: Equity in Losses	**$(3,750)**	(2,547)	(1,547)	(2,614)	(633)
Gain (Loss) on Divestments	**$(2,684)**	417	—0—	—0—	—0—
Earnings (Loss) from Continuing Operations	**$(14,297)**	17,128	14,491	20,137	30,599
Loss from Discontinued Operations, Net	**$ —0—**	—0—	(11,771)	(7,324)	(4,657)
Earnings (Loss) before Extraordinary Losses	**$(14,297)**	17,128	2,720	12,813	25,942
Extraordinary Losses, Net	**$ —0—**	—0—	(55,623)	(3,909)	(9,849)
Net Earnings (Loss)	**$(14,297)**	17,128	(52,903)	8,904	16,093
Primary Earnings (Loss) Per Common Share					
Continuing Operations	**$(1.41)**	1.07	.85	1.31	2.21
New Earnings (Loss)	**$(1.41)**	1.07	(4.54)	.41	1.04
Long-Term Debt	**$96,687**	107,860	113,013	117,408	123,945
Working Capital	**$174,948**	247,191	243,807	279,032	310,807
Stockholders' Equity	**$208,644**	229,888	221,112	288,430	305,161
Average Shares Common Stock Outstanding	**12,466,000**	12,424,000	12,406,000	12,228,000	12,096,000
Number Stockholders	**55,000**	52,000	55,000	51,000	49,000

Figures for 1971-1973 have been restated, where appropriate, for poolings of interests, an accounting principles change and discontinued operations.
All dollar figures are in thousands except amounts per share.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY OF OPERATIONS FOR FISCAL 1975 AND 1974

Net Sales

Sales of both wholesale and retail operations declined in 1975. The decline in wholesale sales is attributed to major reductions in the placement of new orders by retailers who were attempting to reduce their inventories in view of economic conditions. The reduction in retail sales is attributed to a general decline in consumer spending as well as a 5% reduction in the number of retail units operated by the company.

Approximately $21 million of the decline in 1974 sales is attributed to the inclusion in all of 1973 of certain operations that were divested during 1974 and which were therefore included for only a portion of 1974. These operations did not qualify for accounting treatment as discontinued operations under current accounting rules.

Gross Margin

As part of their inventory liquidation program, retailers concentrated their purchases on promotional merchandise which was abundantly available during 1975. In order to remain competitive, it was necessary for the company to sell at lower margins in order to keep plants operating at minimum acceptable levels. In addition, as part of the company's program to keep inventories in line with reduced sales volume, production output was seriously curtailed resulting in an underabsorbing of fixed costs.

The improvement in the rate of gross margin in 1974 over 1973 is attributed to improved merchandising techniques and the elimination of unprofitable product lines.

Selling, Administrative and General Expenses

The decline in selling, administrative and general expenses in both 1975 and 1974 is attributed to an extensive expense reduction program initiated in the Fall of 1973, resulting in a $17,693,000 reduction in 1974 and a further $2,434,000 reduction in 1975.

Interest Expense

The increase in average short-term debt, combined with an increase in average interest rates, resulted in an increase in interest expense in 1975. The increase in 1974 is attributed to unprecedented increases in interest rates although average borrowings in 1974 were lower than 1973.

Income Taxes

The positive tax provision in 1975 relates principally to the company's Canadian operations which were profitable. U.S. operations experienced an overall loss for the year and no tax benefit was recorded for these operations.

Common Stock

The company's common stock is listed on the New York Stock Exchange with the symbol GCO. No dividend has been paid on common stock during the past two fiscal years. The following table lists the high and low sales price of GENESCO common stock during each quarter of fiscal 1974 and 1975.

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	High	Low	High	Low	High	Low	High	Low
1974	10⅛	5⅛	7⅜	4½	7½	5¾	6⅝	4½
1975	5¼	4	4⅝	2⅝	4⅝	3	6¼	3¼

Preferred Stock

All classes of the company's preferred stock are traded in the over the counter market. All preferred dividends are two quarters in arrears. The following table shows the average bid and asked prices for each quarter of fiscal 1974 and 1975 on those classes of preferred which were traded. All remaining classes were virtually untraded and no meaningful price information could be obtained.

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	Bid	Asked	Bid	Asked	Bid	Asked	Bid	Asked
Preference Series B								
1974	41	–	41	50	NQ	NQ	NQ	NQ
1975	30	–	30	37	19	–	18	–
Preference Series C								
1974	41	–	41	50	NQ	NQ	NQ	NQ
1975	30	–	32	37	19	–	20	24½
Preferred Series 1								
1974	NQ	NQ	9	13	NQ	NQ	NQ	NQ
1975	NQ	NQ	10½	13½	6½	11	7½	11
Preferred Series 2								
1974	NQ	NQ	NQ	NQ	NQ	NQ	NQ	NQ
1975	NQ	NQ	29	–	21	–	10	–

Information for this chart furnished by the National Quotation Bureau.

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GENESCO WHOLESALE BRANDS & RETAIL STORES

Brand Names Include:

MEN'S CLOTHING
Fenn-Feinstein
Phoenix Clothes
Griffon
Hardy Amies of London
Esquire Sportswear
Male
Spyder Mark
Remuda
Tiffany Slacks
Chaps by Ralph Lauren
Guy LaRoche
Hayes

WOMEN'S CLOTHING
Michele of Miami
Calendar
Whistlestop
Gingertree
Parkshire Original
Berkshire B-Tween
Hob-Nobber
City Scene
Addesso
Add 'Ems
Susan Thomas
Dal Knittery
Dalani II
Vivo
Rona
Gordon
Kenrose
Wildflower
Kenforms
Kenneth Rose
Plaza South
Sunshine Alley

CHILDREN'S CLOTHING
Girltown
Mary Jane
Justin Charles
New York Mackintosh
Great Things
After Hours

MEN'S UNDER APPAREL
Bodyguard
Regatta
Globe Trotter

WOMEN'S INTIMATE APPAREL & SLEEPWEAR
Formfit Rogers
Juniper
Emilio Pucci for F/R
Kay Unger for F/R
Margit Brandt for F/R
Vera for F/R
Rutledge
Greensboro

WOMEN'S SWIM WEAR
Robby Len Fashions
Waverly Beachwear
Swan Original
Elle

RAINWEAR
New York Mackintosh

MEN'S HOSIERY
Camp Hosiery
D'Orsay

MEN'S ACCESSORIES
Danté
Shields
Don Loper

MEN'S FOOTWEAR
Johnston & Murphy
Jarman
Frank Bros.
Fortune
Douglas
John Ritchie
Cedar-Crest
Sandy McGee
Renegades
Adonis
Charles Jourdan Monsieur

WOMEN'S FOOTWEAR
Jourdan Design
Charles Jourdan
Christian Dior
Pierre Cardin
Miss Club
Easy Street
Cover Girl
National Vogue
Charm Step
Domani
Nadia
Riviera

CHILDREN'S FOOTWEAR
Storybook
Classmate (Canada)

Store Names Include:

WOMEN'S APPAREL
Henri Bendel
Bonwit Teller
Gidding-Jenny
Harold's
Plymouth Shops

MEN'S APPAREL
Whitehouse & Hardy
Frank Bros.
Roger Kent
Burkhardt's
Burkhardt-Davidson's
Baron's
Graves-Cox

MEN'S AND WOMEN'S APPAREL
Roos/Atkins
McFarlin's
Gilbert's
L. Strauss
Hall-Brown
Tate-Brown

MEN'S FOOTWEAR
Jarman
Flagg Bros.
John Hardy
Johnston & Murphy

WOMEN'S FOOTWEAR
I. Miller
Allen's
Holiday-Wise
Charles Jourdan
Miller Eye
Manss

FAMILY FOOTWEAR
Agnew-Surpass
Aggies
Innes
Sommer & Kaufmann
Bell Bros.
Reward
Montreal Shoe Stores
Dexter Shoe Stores
Brittain's
Guarantee Shoe Stores
Berland

GENERAL MERCHANDISE & VARIETY
Kress
Elmore
Valmart

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